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**Dirigisme or Laissez-Faire? - Catching-up Strategies
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by

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Dirigisme or Laissez-Faire? - Catching-up Strategies in the Global System After the Demise of Soviet-Style Command Economies*

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Abstract

The aim of this paper is to discuss the limbo facing international political economy created by the evolution of the former state-socialist countries of Eastern Europe. The introduction of market economies in this region at a time when the state capacities of these societies have been reduced is a project full of implications and lessons. In our opinion a certain comparison to the "capitalist-type command economies" of East Asia is a relevant exercise to understand the problematique of adjusting the internal economies to constraints and opportunities of the world market. In this respect, it is necessary to keep in mind the specific geopolitical and geoeconomic conditions which contributed to the success of the East Asian NICs. It is our contention that the international economic climate is no longer as conducive to the creation and absorption of new industrialized economies, even if they were in the possession of optimal state capacities.

Introduction

According to mainstream wisdom of a few years ago, the collapse of Communism signified that free market capitalism now represented the pinnacle of social evolution. However, since the end of the 'Cold War' which occurred in conjunction with the implosion of Soviet-type socialism, serious difficulties and problems have emerged in the capitalist world system.

Until the beginning of the 1990s, the post-1945 world order was deeply influenced by the antagonism between the Soviet bloc and the American-dominated alliance. This hostility notwithstanding, relations between them paradoxically contrived to create a certain stability and predictability in international politics. Thus, regardless of the upheavals and turbulence in the

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post-colonial world, security existed at the level of inter-state relations between the first and second worlds. In geopolitical terms, an element of collusion could be observed behind the ostensible collision between the USA and the USSR. The confrontation/coexistence of this 'imaginary war', as Mary Kaldor (1991, 28) called the Cold War, was instrumental in strengthening superpower hegemony in their respective spheres of influence. This bipolarity which mobilized and wasted astronomical resources failed, however, to resolve fundamental problems. Besides the costs to American and Soviet societies, especially if the ecological and economic dimensions are considered, the Cold War era created or exacerbated problems for the rest of the world. These problems are presently coming into the open.

Viewed in this way, one of the results of the demise of state socialism/victory of market capitalism, has in fact been the creation of a more open international system bereft of the previous hegemonic guarantees for stability. The reintegration of the former command economies into the international division of labor produces tensions within these societies with a danger of spill-overs into ethnic conflicts or regional inter-state hostilities. At the same time, Western capitalist nations facing economic difficulties of their own, are in no position --were they so inclined--to make the East European transformation easier. The idea of a new Marshall Plan, briefly discussed after 1989, has disappeared from Western discourse. In view of the difficulties affecting the capitalist nations the question of *Quo Vadis* is relevant not only for the countries east of the Elbe but is presently acquiring much more general significance.

While the breakdown of Soviet-type socialism came as a surprise to the mainstream schools of international politics, the end of the Cold War likewise demonstrated the weakness of Western strategic thinking. Neither the academic world nor the foreign ministries seemed prepared for 1989, let alone the ensuing events. The West had no viable strategy as how to use its victory unless, of course, a chaotic post-Cold War period was the objective. The time is becoming ripe for a novel frame of reference to describe the present situation. A dynamic has been created demanding new concepts and new terminology. As James Kurth (1994, 3) points out, how long can we talk in terms of post-Cold War? Post-post-Cold War will not do!

The time has come for analyzing the different problems in the present world situation on the basis of their own merits/demerits. This means in the present context, putting the evolution of the 1990s through a critical examination which has the past, present and future perspective as its frame of reference.

To conceptualize the challenges to security, it is necessary to comprehend not only the destabilizing tendencies at work, but to undertake an effort of clarification of conflicting theoretical constructions and guidelines. A framework is needed to provide a basis for meaningful discussion of the possible options in the search for international and regional stability. This may

be achieved by singling out major destabilizing factors of potential significance in a world dominated by capitalist hegemony.

The Historical Experience of the Market

Whereas the reintegration of Soviet-type economies into the capitalist world system was in fact a component part of the so-called peaceful competition between East and West (Frank, 1977; Brun & Hersh 1978), the ongoing internal transformation of post-command economies constitutes the major new element in the international political economy.

From a historical point of view, Immanuel Wallerstein years ago defined the entire Soviet experiment as a late-comer's attempt to attain core status "by using the classic technique of mercantilist semiwithdrawal from the world economy" (Wallerstein, (1979) [1980], 31). This was also recognized within a section of conventional academia. As the father of mainstream development theory, W.W. Rostow put it, this endeavor represented "the fourth major effort in the twentieth century (2 by Germany, 1 by Japan (JH & JDS)) by a latecomer on the world scene to enlarge its power at the expense of earlier front-runners already at or beyond the inherent limits of their international status" (Rostow, 1987, 831). The evidence of whether this was preordained by historical determinants is subject to debate. In fact, in the early years after the revolution, the question of whether or not to participate in the capitalist world economy gave rise to heated disagreement among Bolsheviks (Day, 1973; Brun & Hersh, 1990, ch. 2). The dispute was not resolved by the course of 'socialism in one country'. In his last writing, Stalin went so far as to claim the existence of two parallel world markets. Furthermore, he simultaneously made the projection that the Socialist camp would soon need outlets in the capitalist world market for its overproduction(!) (Stalin, 1972 [1952], 30-31). In contrast, Chase-Dunn (1980, 1982) has argued, that the Soviet Union had reached the status of a semi-peripheral state in the single capitalist system. But this was a specific-type social formation where traditional market mechanisms had been put out of function. With the demise of state socialism what we are now witnessing is, in the words of Björn Hettne (1994, 48), "an extension of the capitalist core into previously semi-protected liberated zones."

What is argued here is that the fate of the Soviet bloc represents a defeat of the catching-up strategy of state socialism. Seen in this light, the reintegration of these economies into the capitalist world market, especially since the 1970s, offered the West an opportunity to temporarily alleviate the global crisis by incorporating the socialist camp into the international capital accumulation process (See André Gunder Frank, 1996).

Does the push and pull behind the Soviet experiment's evolution signify the total failure of socialism *tout court* and the 'end of history'? An answer would have to take into consideration the fact that socialism has existed historically in different forms.¹ Prior to the establishment of

the USSR, ideas of socialism as a societal formation were generally open ended. It was only after the Bolshevik Revolution, and under very specific circumstances, that a tendency to measure all anti-capitalist endeavours against a specific (actually historically rather unique) experience came into vogue. There were, however, exceptions. Not reconciled to their contemporary social systems, scholars such as Schumpeter, Mannheim and Polanyi envisaged a new societal hybrid: neither capitalist nor totalitarian of a left or rightwing nature. Each in his own way foreshadowed aspects of what eventually became the welfare state. A societal formation which by most objective measurements, proved to be a most successful epoch for capitalism by giving it a 'human face': that is, it offered a certain sense of material well-being and security to the working classes, albeit against a background of structural global violence, particularly in the Third World. It was on this basis that the notion of convergence between the best of both capitalism and socialism emerged in the 1960s and 1970s. Envisaged by Western scholars like John Kenneth Galbraith, Jan Tinbergen and Alec Nove, the two types of industrial societies were expected to absorb each other's best features, thereby diminishing systemic differences between them. In the capitalist countries, this would have involved expanding the capacities of the regulatory state to deepen its influence on the socio-economic evolution. In the state socialist formation a greater degree of democracy and strengthening of civil society as well as some form of market mechanisms would have been needed.

In fact, the socialism/capitalism duality as well as the state/market relationship are dialectically interlinked. As pointed out by Karl Polanyi in 1944 (Polanyi, 1957, 132-4) modern society has a history of being submitted to the impact of a double movement characterized by two organizing principles: one assertive and the other defensive. The dominant and aggressive movement originated with the advent of capitalism: that is, the attempt to bring into being the project of a self-regulating market system. Despite, or perhaps because of, its utopianism this attempt had dire consequences in this century. The excesses of the market called forth counter-movements which encompassed strategies of survival by social groups and political projects of states in order to protect communities as well as their natural environment. Seen in a historical perspective, the near-demise of capitalism both during the Great Depression and the Second World War is a chapter which adherents of the free market are reluctant to address. But it should be remembered that, although different in nature and content, the New Deal in the USA, Fascism in Germany and other European countries, as well as Stalinism in the Soviet Union had one thing in common: each in its own way constituted political self-protective attempts to escape the ravages of the market (Friedmann, 1993, 49).

All the variants within the socialist tradition in the twentieth century in fact recognized the need to protect 'society' from the disruptive consequences of the operations of the market. State socialism, as well as social democracy, considered the state as a defensive instrument

against the corrosive effects of *laissez-faire* capitalism. But in 'fetishising' the state, seeing it as a 'neutral medium' through which society could act upon itself, the socialist movement overlooked the fact that state planning and regulation can likewise cause the atrophy of sociality and civil society (Livesay, 1994, 101) thus exposing socialism to the accusation of representing the 'road to serfdom' (Hayek, (1979, [1944])). Marx's own vision, of course, transcended both the 'market' and the 'state', operating with the perspective of a withering away of the state and the abolition of the market through abrogation of private property and liberation from wage labour.

In the decades following World War II and decolonization three societal projects emerged which sustained economic growth involving an important role for the state. The three pillars of the world system have been identified by Samir Amin as the historic compromise of social democracy, sovietism and in the Third World the bourgeois nationalist project of Bandung for Africa and Asia and *desarrollismo* in Latin America. Their societal importance was that each group of countries rejected the nation of self-regulating markets in the spirit of Polanyi, for not to mention Marx and Keynes! (Amin, 1996a, 245). However as noted by Samir Amin, "None of these compromises made a complete break with the logic of capitalism, but all of them imposed upon capital respect for the movements that had resulted from the explosion of the contradictions of capitalism." Thus, the effects of economic alienation and polarization which unbridled markets had unleashed were put under a certain control. "But this phase is now over. Progressively eroded by its successes even if partial by definition, this logic of compromise went down with the collapse of the systems it had legitimated" (1996b, 3).

Notwithstanding the dominant discourse of the early 1990s, history has not come to a close. This, however, does not imply that the balance between the two movements has not tipped in favor of the market. Fascism was defeated during the Second World War, state socialism imploded, and now the 'Welfare State' is under attack, and Third World countries are submitted to drastic economic measures in the form of the IMF's structural adjustment programs. The movement in search of the self-regulating market is again on the march while the counter-movement remains in gestation. Thus it is not only Eastern Europe which is rediscovering its past, as Shlomo Avineri (1992, 30) has noted. In fact the whole world is experiencing a return of history or a return to history. In reality, the contradictions of global capitalism are becoming more and more conspicuous as we approach the twenty-first century.

With the end of the Cold War and the disintegration of the fabric which held the Western alliance together, whether the West and Japan will be able to crisis-manage their relationship is a valid question. The hegemonic order which the USA established in the shadow of the perceived Soviet menace is increasingly being challenged by 'politically correct' allies/adversaries. This evolution is related to the fact that while economic forces are globalizing the economy, the world market reveals itself to be anything but self-regulating. Under the circumstances of declining

political world order and an increasingly disrupting international economy, it is not unreasonable to expect responses at the national or regional levels in the form of greater political intervention to protect the social body of societies from the workings of the world market. In an essay on the prospects of peace, Jerry W. Sanders makes the following correlation between economics and politics after the Cold War: "The triumphalist celebration may turn out to be a Pyrrhic victory indeed if the West turns its energies inward, from the geopolitics of containment to the geoeconomics of trade warfare, and stumbles down the slippery slope that marked past phases of deconcentration in previous long cycles" (1992, 282).

This is the perspective behind the dynamics of 'real existing' world capitalism. In other words, in the context of the East European path to capitalism these countries not only faces internal tensions but also external roadblocks caused by the dysfunctioning of the international political economy. Some of the problems which post-socialist formations have to confront are intertwined with the dilemmas confronting the world system and can only be understood in such a context. The cluster of problems which will have an impact on the future evolution of the international political economy can be summarized as follows:

- 1) The ecological challenge poses inescapable developmental dilemmas. The environmental costs of modernity are becoming a constant threat to humankind through the widespread use of toxic materials in industrial and agricultural production. Another aspect is the volume of natural resources and energy implied in the European or US mode of production and pattern of consumption which makes a generalization of the Western model highly questionable.
- 2) A second challenge to the possibility of successful integration into the world system, on equal terms with the 'advanced' nations, is connected to the difficulties of absorbing new economic 'miracles'. There is, indeed, little room for new Japans or additional 'tigers'. The almost universal search for outlets in a world economy where all countries have become export-oriented leads to frictions. The growing focus in 1995 on conditions of workers in Asia by the US administration and European governments who accuse East Asian countries of industrial dumping on Western markets is a case in point. For these economies, relinquishing on cheap labor --which was a precondition for their success and for attracting foreign capital-- would mean giving up their comparative advantage.
- 3) A third issue concerns the evolving relationship of financial to productive capital. The system is entering an era where the importance of the 'real economy' seems to recede in favour of 'casino capitalism.' As it is, the turnover in purely financial transactions connected to speculation is 40 times that of international trade in goods and services. It is estimated that due to the free movement of capital based on computerization and

space age communications, a trillion dollars may be exchanged daily on the various stock markets. This has grave consequences for all societies and is a cause of concern to the world community.

- 4) A fourth related problem is the tension between globalization and regionalization. While the world is undergoing a process of transnationalization of financial and productive activities, a tendency toward bloc formation can be observed. This is obvious in the case of the European Union (EU) and the North American Free Trade Area (NAFTA). In Asia, in contrast, we have been witnessing a networking by economic actors without the same emphasis on institution-building. Does regionalization signify a political attempt at protecting markets and a pooling of economic forces in defense of the interests of the regions at the expense of the others? And where does this leave the in-between zones?

A question related to regionalization is whether global protectionism is on the increase thus challenging free trade. While Western advice to former command economies is to open up, we see a reluctance on the part of the big players themselves to put their own theories into practice. Similar recommendations are given to Third World countries as a panacea to their problems. Certainly, given their production costs and wage levels, access to Western markets might go a long way towards alleviating the pains of East European transformation and Third World adjustment but at the cost of disrupting further the economies of the West and Japan. Exacerbating the dilemmas of the world system is the fact that compared to the first decades after Second World War, economic growth has become sluggish. This is not a conjunctural but a structural problem. Widespread duplication of production methods based on economies of scale and the newest technologies makes domestic markets insufficient, thereby imposing reliance on external outlets in a saturated world market. As a consequence, the development of productive forces is causing a problem of absorption. The paradox of course is that while world demand is not covered because of maldistribution of the means of existence, there is a pronounced excess capacity which has problems finding outlets. While the implemented deflationary policies are good at having put the genie of inflation back in the bottle, this is no successful formula for reducing unemployment worldwide.

It is in the context of a decreasing growth rate of the world economy which has slowly been undermining socio-economic and political legitimacy in the West, that a rush to the market took place in former socialist countries. The messianism of the 'invisible hand' caught the imagination of the people of Eastern Europe without regard to the dysfunctioning of the market mechanisms in the West. Thus, having discarded the former belief of the irreversible march of history towards communism, a kind of 'ersatz dialectical materialism' which saw the market as the agency moving human society in the direction of a capitalist paradise seemed to have grasped

the collective mind. In other words, the dystopia of state socialism was replaced by a new faith in a capitalist utopia.

After some years, deceptions in both parts of Europe are undoubtedly displacing the optimism of 1989. The malaise is general. The jubilation which greeted the collapse of state socialism is being supplanted by growing anxiety about the future. In Eastern Europe we see the return of 'renovated communist' parties while in Western Europe we see the appearance of 'recycled fascism' in a few countries and a general trend towards growing xenophobia. Herein lies the menace of the 'return to history'.

Command Capitalism: Lessons From East Asia

The constraints of the present international political economy are apparent while the opportunities are more difficult to discern. The drama of post-socialist societies is that the liberalization of their economies and integration in the world system take place at least one or two decades "too late." Compared to the East Asia of the 1950s and 1960s, their point of departure is more favorable as far as a qualified and disciplined workforce and scientific level are concerned. Nevertheless it is questionable whether they will be able to duplicate the examples of Japan, South Korea and Taiwan: the climate in the world economy is far less propitious to export-led development compared to the 1960s and 1970s. In addition as pointed out by several scholars, by putting 'politics in command' the developmental state in East Asia played an important role in the capitalist growth process. In contrast, in Eastern Europe the space for state intervention in the economy has been reduced as a component of the post-socialist reforms, leaving the renovated neo-liberal regimes on much weaker foundations. Concomitant with the liberalization of the economy a Latin American type destabilization has taken place, reducing the legitimacy of the post-communist state and begging for alternatives.

Even though the external environment may be far from favourable, the full-fledged entry of Russia and Eastern Europe into the mainstream of global capitalism constitutes a challenge as to the political-economic strategy most appropriate for this transformation. The presently attempted variant of capitalism raises the question of whether East European societies will display features of an Anglo-Saxon type capitalism or whether capitalism with East Asian characteristics is a more appropriate model. Will these societies, especially those of Central and Eastern Europe, be able to overcome their traditional bias of belonging to a unified European culture and skepticism towards extra-European societies? The American political scientist, Lucien Pye, on the basis of a culturalist approach, identifies the basic historical difference between the European and Asian unitary and economic systems in the following terms: "The unity of Europe lies in its history; the unity of Asia is in the more subtle but no less real, shared consciousness of the desirability of change and of making a future different from the past" (1985, 2). After the demise

of state socialism, will Eastern Europe be able to surmount myths and prejudice in learning from the experience of East Asian command capitalism? This notwithstanding that the experience of having been peripheral to Western Europe during 500 years has been traumatic for Eastern Europe; the frustrations of which may partly explain the region's past authoritarianism. André Gunder Frank (1996) makes the point that only the people of Central Europe may have a chance of becoming 'West Europeans'.

Nonetheless, because of the affinity to European culture, the immediate impulse has been to adopt foreign advice on the priority of unleashing market forces in the hope of emulating Anglo-Saxon capitalism. Another factor pushing in the same direction was the domestic backlash against an overwhelming bureaucratic apparatus. The loss of legitimacy of the political sphere encouraged East European elites to emulate the monetarist neoliberalism of Washington and London. With the retreat of the state and the wave of privatization, it was in a sense 'natural' for East Europeans to become enamoured with the neoliberal discourse on the market. By thus achieving hegemony on the ideological and political front, the protagonists of the market succeeded in usurping the means of defense against capitalism. Not only was the legitimacy of the former political class discredited, but the attacks against socialism and its terminology left people defenseless *vis-à-vis* the market reforms. As noted by an observer: "As yet no new political language - a language of interests, identities and goals on which public action depends - has evolved to take its place. The loss is particularly problematic for industrial workers who have much reason to organize, protest, and propose alternatives to current policies but who must find another language to express their interest before they can organize successfully" (Woodward 1992, 9). To some extent this state of affairs serves to explain why the tension created by the reforms between the people and the governments who seem insensitive to the social costs found expression in retrograde ideologies and discourses. A somewhat similar phenomenon could be observed in the West as a result of attacks on the 'Welfare State' under the influence of Thatcherism and Reaganomics. In the Third World, one response to the neoliberal 'counter-revolution' of development economics (Toye 1987) has been the rise of religious fundamentalism and ethnic conflicts.

The transformation of Soviet-type economies took place simultaneously with the offensive in the West against the welfare structure and the retrenchment of political leverage in the economic sphere. Moreover, the de-activation of the regulatory state and liberalization of the market have become not only the guidelines for Western capitalism but are the policy-making recommendations of the World Bank and the International Monetary Fund (IMF) to Eastern Europe as well as to Third World countries.

Although the pace of the transformation of former socialist countries has not been uniform, the reforms have generally been in the same direction: privatization of the public sector

accompanied by across-the-board decontrol of prices and trade liberalization. This reform package, which is based on neoliberal economic advice, overlooks the success of East Asian late industrialization and development.² The latter model is based on the implementation of a specific understanding of political economy, whereby the state assumes a function in the guidance of the economy without disregarding the importance of the market. Government policy-making is thus organically tied to the production factors - land, labor and capital - in actively creating comparative advantages. Although voluntaristic, this type of economy implies an evolutionary approach and not a strategy of rapid radical reforms. In order to grasp the essence of the East Asian ideal-type developmental state, it may be of interest to summarize some of its main characteristics (See Johnson, 1987):

- a) Autonomy of the state (*vis-à-vis* interest groups);
- b) State-exercised financial control over the economy;
- c) Coordinated or corporatized labor relations (either through the carrot or the stick);
- d) Bureaucratic autonomy (in key economic sectors);
- e) 'Administrative guidance' in giving preference to some industries over others;
- f) Favoured government-treatment to private sector organizations, such as trading companies and industrial conglomerates (*zaibatsu*, *keiretsu*, *chaebol*, or *caifa*)
- g) Limited and controlled role for foreign capital.

These capacities are a far cry from the *laissez-faire* model propagated to Eastern Europe. As Meredith Woo-Cumings who, after discussing these interventions writes: "This is an ideal-type of a statist utopia that would make Adam Smith turn over in his grave: the state wields power over society and the market at home, and holds foreign interests at bay by means of its formidable gate-keeping power" (1994, 415). However, as will be pointed out below, state capacities never occur in isolation from the broader societal structure and international context.

East Asia's economic strength is largely based on its ability to maximize its economic growth and exports and minimize imports. In fact it rests on a rejection of both communist-style state ownership of the economy and the neoclassical belief that free markets and minimal state interference are the answer. In contrast to the dominant Anglo-Saxon *laissez-faire* point of view, neomercantilist ideals and practices shape and fuel East Asia's economies. Strategic industries are targeted for development and declining industries are nurtured through a dynamic mixture of corporate collusion and competition. Industrial policies have been implemented with a range of subsidies, import barriers, technology infusions, and export promotions which were made successful through access to the large markets of the American continent and of Europe.

As mentioned above, certain geo-political conditions made entrance in these key markets possible. In Japan, South Korea and Taiwan substantial economic aid became available in the early stages of their development processes. Several additional circumstances in the world-economy could be pointed out that facilitated the capacities of the East Asian State: 1) Transport costs and trade barriers in core markets (North America and Northwestern Europe) were decreasing. 2) Competition intensified within the US market, especially with the entry of Japanese manufactures. 3) The accumulation of higher skills in the core work force made 'unskilled' labor scarcer and therefore more expensive, which enhanced the comparative advantage of lower-income countries with a less-skilled labor force, and created a demand for imports of labour intensive products. All three factors combined to prompt US buyers to search out low-cost suppliers in faraway places (Wade 1992, 11).

The rapid growth of Japan and the NICs was facilitated because of their ability to combine the capacities of the state with extensive cheap labor, state-of-the-art technology, and an exchange-rate strategy that made their manufactured exports very competitive in world markets. Later as a result of the Plaza Agreement the NICs, having their currencies pegged to the falling dollar greatly improved their competitive position in the 1980s as the appreciation of the value of the yen made Japanese goods more expensive.

Strategically, Japan and the NICs used the developmental state to improve their economic position in the world by holding back consumption thus increasing savings and channeling resources into industrial investment. This was made possible through a specific institutional set-up and its related capacity to implement certain industrial and trade policies.

Each of the following fundamental capacities is furthermore found in the Japanese, Korean, and Taiwanese institutional framework although with differing degrees, patterns of historical evolution, and tradeoffs arising from stressing one more than the other: 1) Stable rule by a political-bureaucratic elite that does not accede to political demands that would undermine economic growth or security; 2) cooperation between public and private sectors under the overall guidance of a pilot planning agency; 3) heavy and continuing investment in general education, combined with policies to ensure a relative equitable distribution of national income; and 4) a government that understands the need to use and respect methods of intervention based on the price mechanism (Johnson 1986, 1987). Furthermore, the concept of dirigisme denotes a mix of political and economic functions where the notion is that 'government and state governs best that governs most'.

At least two factors were crucial to the unprecedented growth and the ethos of developmentalism of the East Asian state: It deliberately intervened in the development process, guiding the economy and providing key elements of economic and social infrastructure. Certain structural reforms, such as the agrarian reforms in Japan, Korea and Taiwan (all paradoxically encouraged

by the US-ally) established the preconditions for successful development. Furthermore, each nation's developmental effort coincided with a period of rapid world economic expansion and internationalization.

With regard to industrial policies the Japanese and to a certain extent, the Korean and Taiwanese domestic economic systems are characterized by "controlled competition" in which intense competition between firms in key industrial sectors is partly directed and at times limited by both state actions and the formal and informal collaborative efforts of industrial and financial enterprises. The precise rules guiding the system evolve with the structure of the economy, the financial and market strength of the companies, and the political position and purpose of the bureaucracy (Borras et al. 1988).

The promotion of the state's objectives have been pursued through two sets of policies: Those controlling the links between the Japanese market and international markets, and those manipulating the domestic enterprises to stimulate expansion. T.J Pempel once characterized the Japanese state as an 'official doorman' determining what, and under what conditions, capital, technology, and manufactured products enter and leave Japan. This pattern of controlled access was until recently also implemented by the Ministry of Finance which implemented policies of selective controls over inward investment (Borras et al. 1988). MITI controlled technology imports in order to force foreigners to sell raw technology in the form of patents, licenses, and expertise.

The state in Japan used a system of non-compulsory indicative planning and administrative guidance to accomplish stated objectives. Government plans identified the strategic targets, provided guidance for industrial policy and bolstered confidence of the domestic business community.³ Plans were adjusted according to changes in basic trends of supply and demand. According to Sato, in carrying out indicative planning, the Economic Planning Agency has a number of policy instruments at its disposal which include: 1) Expenditure policy, 2) tax policy designed to promote savings in order to finance capital formation, 3) various extensive off-budget activities such as funds collected by the Postal Savings System, 4) subsidizing industries through favoritism and protectionism, 5) credit policy support, 6) research and development policies that strongly favor strategic technology innovation and application, 7) agricultural policy that protects Japanese farmers' interests and solidifies the conservative rural constituencies, 8) trade policy effectively promoting Japanese exports.⁴

These observations are consistent with Wade's analysis of South Korea and Taiwan where the state actively intervened in the trade regime and managed commercial relations. Tariff and non-tariff instruments of protection (for instance, permitting imports of specific products only from countries that were non-competitive suppliers) continued to be significant in affecting the direction of industrialization. In many instances, protection of the domestic markets has been

conditional on becoming competitive in international markets. During the same period, the state maintained tight control over foreign investment through industrial licencing and the imposition of local content requirements and making protection for foreign investment conditional on performance. The state exerted tight control over the financial sector and allocation of credit, i.e. through exclusion of foreign banks. Parastals and state-owned enterprises have played a significant leadership role and enabled the authorities to direct discretionary investment incentives and determine which key sectors should be upgraded and which downgraded.⁵

If any lesson is to be learned it is, as the experiences of Japan and the NICs suggest, that the achievement of high-speed economic growth depends on government standing above vested interests to help create the social and political infrastructure for economic growth. In short, technocrats need a degree of insulation, but they cannot operate in isolation, even in an authoritarian setting (Evans 1992, 178). This is perhaps a significant lesson China has taken from the advice of Lee Kuan Yew, the former Prime Minister of Singapore and from the NICs and Japan in general, not to mention from the meltdown of the Soviet Union. (We return to the issue of East Asian market-socialist catching-up strategies below).

The Japanese state who has been accused of having been a **free-rider** in the external context also escaped to a certain degree social obligations in the domestic context. The fact that Japan managed the transformation from a warfare to a trading state in such a brief span of years might be primarily explained by the fact that the state didn't spend substantial resources in the defence and social sectors. Indeed this complement the explanations mentioned above about how Japan could continuously upgrade national capital accumulation in terms of trade surplus and other revenues cum profits:

State Policies	Outcomes
Neo-mercantilism	Import Substitution/ Export Orientation
Non-welfare	High Savings/Low Interest Rates
Moderate Consumerism	Channeling of Resources to Industrial Investment
State-productive/financial capital Corporatism	Exclusion of Labour
Soft Authoritarianism	Political Stability
US Security Umbrella	Non-defence

Contrary to the acknowledged role of statism in the Japanese socio-economic evolution, the dominating ideological discourse of liberalism in the West is based on a societal construction

which abstracts from reality. But in fact the contradictions and potential conflicts of capitalist societies demand containment or regulation by institutional set-ups underpinned by the leverage of the state also in order to mobilize and steer internal human resources. This point is akin to the theory of 'social structures of accumulation' (Bowles et. al., 1983) as well as the French 'regulation school' (Aglietta, 1979). While the East Asian model was coercive in the implementation of such a regime, East Europeans could equally draw lessons from the more consensual *soziale Marktwirtschaft* established during West Germany's post-Second World War 'economic miracle' under the conservative governments of Konrad Adenauer and Ludwig Erhard.

As mentioned, an important dimension to be taken into consideration is the specific environment which may/may not be conducive to a replication of export-oriented development. A restructuring of production in Eastern Europe depends on international conjectures and politics as well as on the ability to react and adapt to the changing external conditions and utilize national resources expediently.

To adapt does not, of course, imply giving up identity or relinquishing control of relationships with the outside world. Not everything foreign is equally conducive to a positive development! Writing in 1915 of 'Japan's opportunity' as a latecomer, Thorstein Veblen made the point that by importing modern technology and preserving feudal values intact, the country could avoid much of the social disruption and antagonism that the first industrial societies had experienced. Besides trying to prevent the negative aspects of early industrialization, Japan also learned the 'technology of nationalism' from Western nations (Pyle, 1988, 447). Whether the advantages of late development are, indeed, available to East European societies is an important question. They are, in fact, neither undeveloped nor underdeveloped. Having based their means of production on heavy industry, these countries were behind in the introduction of new technologies making their transition from extensive to intensive production difficult. While heavy industry could historically absorb surplus labour from agriculture, today's technology does not absorb the supplanted labour from heavy industry. Thus, introducing high-tech in the context of Eastern Europe may create social tensions. Moreover, if unable to purchase the expensive technology from the outside, the countries will have to either depend on external investment or rely on internally generated technologies. All options are capital dependent.

To get a comprehensive understanding of the problematique it is necessary to focus on domestic restructuring capabilities and on the interplay between internal and international conditions as seen from a national point of view. Financial strength no less than industrial policies and technological capacities are important determinants.

Capital is needed for investments. It has been debated among development theorists whether foreign direct investments or domestic capital will prove most successful and what impact different kinds of investment have on the type of production, productivity and employ-

ment. The reality is that while financial capital is abundant on the world scale, productive capital is a scarce resource. Whether a country is able to attract investments or not depends on a number of factors such as level of income, infrastructure, national policies and traditional relations of co-operation in what has become a global competition. The East European countries have followed different courses regarding privatization and degrees of liberalization (de-regulation) including policies towards foreign investments. Some have even adopted an industrial policy.

Related of course to the question of investment and change in a society's production is thus the technological level. The radical transformation in Eastern Europe, since 1989, whereby the doors have been widely opened to foreign investment -- which is the prerequisite for privatization in capital deficient societies -- has affected the conditions of technological up-scaling. To alter technology will imply shifts at firm level as well as at inter-firm level. Technology transfer is one way of modernizing; a more autonomous strategy would be to facilitate the employment of domestically accumulated scientific knowledge.

A number of questions emerge from these remarks: is the East Asian experience readily transferable to the newly emerging societies in Eastern Europe? Specifically what are the implications as far as containment of the market, collaboration between the state, political forces and new institutions are concerned, as well as the role of economic planning and policy-making? Does China's experiment with 'market-socialism' in its transformation from a planned to a more regulatory economy through interventionist and guided policies as well as a dominating public industrial sector offer lessons for Eastern Europe?

Apart from what has been discussed here, the answers to these questions may vary. Over the past 25 years, eight economies in East Asia have together raised their annual per capita incomes by nearly six percent. This figure reflects the enormous levels of domestic consumer demand which have been generated in the wake of unparalleled economic expansion. Among other things, the swift economic growth has brought about a quadrupling of average per capita incomes in East Asia during the past quarter century, an unprecedented record in economic history. Nowhere else in the world have incomes ever improved so much for so many people in so brief a span of time.

How did East Asia do it? The evidence does not point to any single explanation factor. Degrees of democracy, autocracy, and political cohesion vary within and between East Asian societies. Focused and careful analyses have not been able to elicit a general causal relationship between political systems and economic performance. Generally rapid economic growth has been an important element in achieving political stability, whereas lack of growth has led to political upheavals in developing and industrialized countries; some political regimes, however, have been able to survive despite poor economic performances. Neither natural resource endowment, country-size, geography, location, and capital inflows are the principal causes of differentials in

growth rates. Differences in institutional or economic performance also do not appear to have cultural origins or point to definite reasons why East Asia achieved what it did in terms of long-term high speed growth. A large amount of literature has demonstrated that various cultures contain the seeds of both growth and economic decline. The only constant that seems to emerge from past experience is that political stability is essential for economic growth. And political stability requires some sort of societal consensus and cohesion (Hughes 1989, 260-1).

If we draw on the evidence provided by the debate about the causes of development, economic performance appears to be determined primarily by the dialectics between international and domestic actors and institutions and a country's domestic economic policy framework (Schmidt 1996, 199). In this essay, it has been argued that strong economic growth in East Asia was attributable to state dirigisme *cum* capacities with a high degree of state intervention and coordinated policies which helped to protect, promote, and rationalize industry. But any capitalist or postsocialist state wanting to optimize capital accumulation is dependent in a dual sense on the international environment. This duality is reflected in the terms which laid the foundation of Japan and the NICs success; in fact they probably would not have emerged outside the security umbrella of the United States and without access to the open but volatile American market for manufactured goods (Hersh, 1993). Thus the question of whether Eastern Europe should look East or West for its economic strategy has to take into consideration the international and historical context as well.

Towards a Theoretical Understanding of Transformation and State Capacity - Riding the Tiger, Taming the Bear

With the break-up of Soviet-type societies, the virtues of the market model have been promoted with renewed vigor in Western policy circles. Whether the lessons drawn from the former command economies can be extrapolated is uncertain. Eastern Europe is going through a transformation process which has witnessed the disintegration of institutions and bureaucracies: the national economies of Eastern Europe find themselves in a vacuum, face to face with conflicting perspectives and choices. This state of affairs translates into a situation characterized by shaky political structures, shifting national identities and uncertainties as to the role of ethnicity, political culture and civil society, as well as the role of the market and the state.

These clusters of interrelated problems reflect the importance of examining the evolution of the *new European capitalist economies* from a variety of perspectives. One central point of controversy about the process is whether change should be gradual or whether a sudden and immediate shift (i.e. a 'big-bang' approach or shock therapy) is preferable. The numerous implications call for more empirical and theoretical thinking and research.

In East Asian countries like China and Vietnam, the economy can best be described as being submitted to an evolutionary change leading to what Andreff has called a paradoxical situation: The transformation out of socialism seems to be rather efficiently handled by a Communist Party still in power but convinced of the benefits of a market economy at a time when, in Eastern Europe, economic transition is regarded as the twin sister of political democracy and its flourishing parliamentary debates. The Chinese economic reform since 1978 is exemplary (Andreff 1993, 529). In terms of sequencing and timing of reforms the Communist Party in China has been committed to the same sequencing strategy as South Korea and Taiwan focusing first and foremost on restructuring the economy with limited political opening. So far this has been more productive than the attempts by former socialist societies in Europe which tried to achieve both simultaneously. However, the external environment is not conducive to export-led growth because of decreasing market access to Western countries where unemployment and social malaise are shaking the corporatist foundations and social fabrics of these societies.

Arguments have been put forward by a Russian economist that the former Soviet economies will need a dynamic and skillful government economic policy to handle their transition. What is required, "much more resembles South Korea, Singapore and Taiwan with their active government intervention." The reasons for this are to be found in the system-specific inheritance of the USSR, the absence of market infrastructure and institutions and the danger of a '*nomenklatura-mafia capitalism*' (Khanin 1993, 33 & 39; Katz 1991). This implies a transformation of the state in qualitative terms, and what could emphatically be termed 'Riding the Tiger, Taming the Bear', in the sense of copying the East Asian capitalist developmental state model with its specific institutional framework and policy-making process, and implementation of industrial policies.

The case of transformation and initiating reforms in Eastern Europe and the former Soviet Union has evolved quite differently from the East Asian experience. Three preconditions need to be considered:⁶ The first concern is the need to create institutions that insulate key economic management functions from political pressures, while leaving other types of decisions open to legislative and interest-group participation. Macroeconomic policies that require continuous adjustment but that can be manipulated by the state authorities are probably the most appropriate candidates for such protection. A second, complimentary approach to sustaining and consolidating economic reforms focuses on efforts to facilitate consultation between the state bureaucracy and business groups. In the case of Japan, South Korea and Taiwan this consultation mechanism has been institutionalized. The third and probably most important point is the implementation of an effective social pact resting not on dialogue regarding economic policy but based on a relatively equal land and income distribution, reduction of inequality and as a result,

human welfare and all the subordinates indices thereof (education, health, and housing, among others) which must improve dramatically.

In Eastern Europe, however, social pacts have broken down together with the collapse of planned economies and state socialism. One obstacle is the absence in most countries of strong organized trade unions and other nonstate actors. There are deep-rooted suspicions against the state and strong divisions within the nonstate sectors at large. Another obstacle is the absence of a nationalist bourgeoisie and an entrepreneurial class.

The scope of the issues involved poses a challenge to established conceptualizations of societal transformation as Eastern Europe and Russia find themselves in uncharted territory. There is no blueprint for the transformation from state socialism to market capitalism. Under conditions of the non-existence of a definite pattern of analysis, different approaches around the following themes have been attempted by the scientific community: a) the neo-classical paradigm based on the assumption that social phenomena can be analyzed as the outcome of interactions between rational agents;⁷ b) neo-institutionalism based upon the prescribed remedy to freeing market forces through the creation or strengthening of market-supporting institutions and reducing the role of the state;⁸ c) neo-structuralism based upon a conception of market *inter alia* economic growth as the result of a set of government policies; d) neo-Keynesianism emphasizing a limited role for a regulatory interventionist state in order to act as an engine for market forces; e) neo-Marxism pointing to the social character of production and the impact of the international political economy;⁹ and finally, related to that, f) world system analysis with its focus on the asymmetric relationships of global accumulation.¹⁰

The problem for especially Eastern Europe and Russia is that they have very much been subjected to the advice of Western agencies, including the IMF and the World Bank, to reduce state control of the economy and society. The role model has been the neoliberal project which in recent years has also attacked the social compromise created by the 'Welfare State' in the West. In contrast, our argument is that neoliberalism is not a precondition for economic growth and achieving competitiveness in the world market.

While the assumptions raised here is that Eastern Europe has much to gain from learning from East Asia there are important constraints for a successful implementation of statist development:

- 1) The international environment is not as conducive to export-led growth as it has been in the past.
- 2) It will be difficult to obtain political legitimacy enabling state capacities to operate (the past experience weighs on the present).

- 3) The market is weakening the propensity of the state to fulfill its function of guiding the economy.
- 4) The state is being robbed of its revenues through the privatization of public property and national enterprises - and there is also reports about increasing tax evasion and economic criminality resulting in a specific type of mafia-capitalism.
- 5) The political sphere is in shamble and the state does not have the capacity of establishing the social arrangement conducive to economic growth.
- 6) Furthermore, states in Eastern Europe and the former USSR have to cater to international multilateralism and goodwill.

Seen in this light learning from the examples of first China and then Vietnam are probably more strategically and ideologically attractive. Here the sequencing was the reverse:

- 1) Monopoly of political power was maintained
- 2) Liberalization of agriculture before industry
- 3) Retaining the capacity of extraction
- 4) Bargaining position toward foreign capital
- 5) State involvement in international trade issues
- 6) Experiments with privatizations of state enterprises although retaining the important industries under state ownership.

In these cases growth was quite strong. Foreign capital has been quite interested in the potential markets of especially China. Labor is cheap and abundant and is or will soon be as qualified as in the rest of East Asia. But the social costs of the economic reforms are quite high. It is difficult to foresee the future, but it can be said that communist regimes opening to capitalist mechanisms have a better chance to utilize state capacities than what has taken place in Eastern Europe and Russia.

In sum, there is no conclusive approach, theory or interpretation which offers the optimal insight into the transformation processes in Eastern Europe and the former Soviet Union. The perspective of this contribution has been based on Eastern Europe and the former Soviet Union's learning and possible successful emulation of the East Asian model. This analysis has attempted to fill the gaps in knowledge identified above by investigating the comparative interplay of external and internal factors and how they affect and influence the role of the state as a societal construction. This has been done implicitly through the approach of the "sociology of development" and explicitly through a meta-theoretical construct - the new comparative political economy - which on the one hand intends to relinquish attention away from an artificial division

between state and market and instead focuses on social forces and on the other hand considers whether and how foreign capital in the form of investment, loans and aid, affects state autonomy and capacities (Evans and Stephens 1988, 751 & 758-9). Through a comparative perspective, variation in policies and strategies of industrialization and the concomitant negotiation and bargaining with the international system has revealed the interventionist and regulative capacities of the East-Asian ideal-type model.

In our opinion this can be a source of inspiration as the world is in fact witnessing a global process needing a new frame of reference and new conceptualisations. Thus, far from closing the discussion, the intention is to stimulate debate and further research.

Notes:

1. Socialism has existed in at least three distinct forms historically - communitarianism, Marxism, and Social Democracy - each buttressed by distinct theoretical underpinnings. For further elaboration on this distinction, see Hechter (1994, 155-67).
2. In the following when referring to East Asia it is primarily the capitalist catching-up economies of Japan, South Korea and Taiwan.
3. The distinction between plan-rationality and market-rationality is made by Chalmers Johnson (1986).
4. A useful discussion of the nature of indicative planning is found in Sato (1990, 625-647).
5. See the two concluding chapters in Wade (1991, 297-381).
6. For this and the following, see also Joan Nelson (1993, 440-1).
7. The central features of reform emphasized by Western proponents of neoclassical theory, i.e. big bang, are in summarized points: a) macroeconomic stabilization, involving (virtual) elimination of the budget deficit and the imposition of credit controls that prevent enterprises from borrowing at their own volition to cover losses; b) price liberalization; c) enterprise reorganization, with the ultimate objective of general privatization, but starting off, (at least for the larger enterprises) with "de-etatization" (or corporatization, i.e., turning enterprises into publicly owned joint-stock companies) so as to replace central planning by enterprise autonomy with associated rights by discipline from competition and penalties such as the threat of bankruptcy; d) provision of a social safety net, involving at least unemployment insurance and perhaps also (during a transitional period) the right of each consumer to buy a basket of basic products in limited (i.e. rationed) quantities at low prices; e) opening the economy to the outside world, which implies setting a competitive exchange rate, making the currency convertible on current account for the enterprise sector, eliminating nontariff barriers to imports, setting a nonprohibitive tariff schedule and welcoming foreign direct investment. See Harrylyshyn and Williamson (1991, 61-2).
8. The theoretical construct of the new institutionalist theory is derived from North (1981 and 1990); Williamson (1985); and Olson (1971). For applications to the postsocialist context, see Nee and Peng Lian (1994, 253-96).
9. For a contribution in a class struggle perspective derived from a Marxist mode of production analysis, see Clarke et al., (1993).

10. This approach has a close affinity to dependency theory with emphasis on dichotomies such as 'core-periphery' or 'metropolis - satellite'. These macro-approaches to the world system are sceptical as to the possibilities of transformation within the capitalist world economy. See Frank (1996) and Wallerstein (1979, [1980], ch. 4).

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